In the

United States Court of Appeals

For the Ninth Circuit

No. 18775

Civil

ALBERT LAPIN and LAPINAL, INC.,

Appellants,

vs.

SHULTON, INC., and TECNIQUE, INC.,

Appellees.

APPELLEES' BRIEF

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JURISDICTIONAL STATEMENT

The order of the United States District Court for the Southern District of California, Central Division, dismissing the complaint herein for jurisdictional reasons was entered on December 4, 1962 (R. 225).[1] The order of that court amending the judgment of dismissal so as to incorporate as a part of the record certain affidavits and to dismiss the complaint "without prejudice" was entered on April 29, 1963 (R. 273-8). Notice of appeal was filed by appellants on May 27, 1963 (R. 279). Appellants invoked the jurisdiction of this court under Sec. 1291 of Title 28 *U.S.C.*

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[1]The transcript of record consists of two volumes. The first volume includes the entire record designated by the parties, except for the reporter's transcript of the proceedings had on November 20, 1962 in the court below, which is Volume 2 of the transcript of record. In this brief, Volume 1 is cited as "R. ...." and Volume 2, the reporter's transcript, is cited as "R. Vol. 2, p. ....". The Appellants' Brief is cited as "App. Br."

STATEMENT

The statement in Appellants' Brief is inaccurate in some particulars and incomplete in others, and it is therefore necessary for appellees to set forth an additional statement.

Appellants commenced this action in the United States District Court for the Southern District of California, Central Division, to dissolve a decree of injunction entered on July 5, 1951 by the United States District Court for the District of Minnesota, Fourth Division, in the case of *Albert Lapin, et al., v. LaMaur, Inc.,* No. 3232 Civil in the files of that court. For brevity, the decree so entered is hereinafter referred to as the "Minnesota decree" and the District Court which entered it the "Minnesota court".

A brief description of the facts and circumstances leading to the issuance of the Minnesota decree will serve to clarify the issues raised in this proceeding.

On November 22, 1947, appellant Albert Lapin and his three brothers, Isadore, Samuel and Harold Lapin, granted LaMaur, Inc. (herein for brevity referred to as "LaMaur") an exclusive license to manufacture and sell a hair dye, "Tecnique", in accordance with formulas and processes represented by the Lapins to be secret, together with "any improvements" therein (R. 27, 31, 32). As a term of the license agreement, Albert and Isadore Lapin agreed to enter the employ of LaMaur to help promote the sale of Tecnique in the beauty trade (R. 32).

Thereafter, the Lapins commenced an action in the Minnesota court to cancel the license and enjoin LaMaur from continuing to manufacture and sell Tecnique, on the ground, among others, that LaMaur had failed to produce and sell Tecnique in sufficient quantities to pay the earned royalties stipulated in Par. 20 of the license agreement (R. 22, 66-8).

In its answer, LaMaur alleged, as one defense among others, that, if it had failed to make the requisite volume of sales, it was excused from doing so because Albert and Isadore Lapin had wrongfully and continuously disparaged the product manufactured by LaMaur, with substantial adverse effects on the marketing of Tecnique by LaMaur (R. 40, 50).

In a counterclaim, LaMaur alleged that the Lapins, through a wholly-owned corporate instrumentality then known as Lapinol, Inc. (now Lapinal, Inc.), had sold hair dyes manufactured in accordance with the formula licensed to LaMaur, in violation of the exclusive license agreement (R. 52). After hearing, the Minnesota court, Judge Gunnar H. Nordbye presiding, sustained the mentioned defense (R. 80-4) and held that the license agreement had not been duly canceled (R. 87). The court further found that the Lapins had in fact, and in violation of the exclusive license agreement with LaMaur, manufactured a hair dye containing "qualitatively" some or all of the same ingredients disclosed in the formulas licensed to LaMaur, that, even if the combination of such ingredients in the product manufactured by the Lapins was different "quantitatively" from that disclosed in the formulas licensed to LaMaur, the formulas and processes used in the manufacture of Lapinol was an "improvement" thereof, covered by the license agreement (R. 72-3). The Minnesota court made no finding whether the formulas and processes covered by the license agreement were "secret", though it found that the Lapins had represented them so to be (R. 76).

On December 30, 1950, in accordance with its findings, the Minnesota court entered a decree enjoining the Lapins for the duration of the license agreement, directly or through its corporate instrumentality, then known as Lapinol, Inc. (now Lapinal, Inc.), from manufacturing Lapinol (or Lapinal) in competition with LaMaur (R. 75, 88).

Negotiations for settlement ensued, which culminated in a stipulation dated July 2, 1951 under which the parties canceled the license agreement of November 22, 1947 and the Lapins agreed to "sell, assign, transfer and set over to defendant the secret hair dye (known as 'Tecnique') and the secret formulas and processes for making the same and all the formulas and processes which are the subject-matter of said license agreement" (R. 89, 91).

The stipulation further provided that the Lapins would not disclose the formulas for the manufacture of "Lapinol" or "Lapinal" or authorize the manufacture thereof, with the proviso that this covenant should not be construed to prevent appellant Albert Lapin, directly or through Lapinol, Inc., from manufacturing the same so long as Albert Lapin continued to be the principal officer of Lapinol, Inc. and the owner of a majority of each class of its shares or other securities (R. 92). The proviso read as follows:

> "Provided, nevertheless, that the foregoing covenant and agreement shall not be construed to prevent Albert Lapin, one of the plaintiffs, individually or through the instrumentality of Second Party (Lapinol, Inc.), from manufacturing 'Lapinol' or 'Lapinal' or any other hair dye or hair coloring or hair tinting product, other than 'Tecnique', or from selling the same in the usual course of the beauty trade for so long, but only so long, as plaintiffs and Second Party shall refrain from violating their foregoing covenant and agreement and for so long, but only so long, as Second Party shall remain a corporation with the majority of each class of shares of stock or other securities issued by Second Party owned and held to his own account by Albert Lapin, free and clear of any encumbrances, restrictions and agreements, and Albert Lapin continues as the principal officer of Second Party." (R. 92-3).

The stipulation made no provision for any change in the Findings of Fact originally entered by the Minnesota court on December 30, 1950, but did provide that application would be made to amend the Order and Decree entered by the Minnesota court by eliminating therefrom certain designated paragraphs and substituting others in conformity with the stipulation (R. 93-4). On July 5, 1951, on application of LaMaur, the Order and Decree of December 30, 1950 were so amended and a Decree of Injunction entered, enjoining the disclosure of the formulas and processes involved, subject to the proviso that the limitation would not extend to the manufacture of Lapinol or Lapinal by appellants Albert Lapin or Lapinol, Inc. so long as Albert Lapin continued as the principal executive officer of the mentioned corporation and owned the majority of its issued shares or other securities (R. 96). The order and decree of July 5, 1951 in this respect is correctly set forth on pp. 4-5 of Appellants' Brief.

Conformably with the stipulation, the Lapins delivered to LaMaur a bill of sale dated June 28, 1951, transferring to LaMaur the formulas and processes for making Tecnique, "together with any improvements" therein (R. 190, 191).

LaMaur marketed Tecnique through a subsidiary corporation known as Tecnique, Inc., a Minnesota corporation (herein for brevity referred to as "Tecnique of Minnesota"). Until December 17, 1959, however, LaMaur retained all right, title and interest in the formulas and processes for the manufacture of Tecnique acquired from the Lapins and in the decree of injunction entered July 5, 1951 by the Minnesota court. On December 17, 1959, LaMaur transferred the formulas and processes for the manufacture of Tecnique and all its right, title and interest in the Minnesota decree to Tecnique of Minnesota (R. 192, 196). The latter corporation, on the next day, December 18, 1959, transferred all the property and interests so acquired to appellee Tecnique, Inc., a New Jersey corporation (herein for brevity referred to as "Tecnique of New Jersey") (R. 194, 198), a wholly-owned subsidiary of Shulton, Inc.

LaMaur's assignment to Tecnique of Minnesota, dated December 17, 1959, of its interest in the Minnesota decree, reads as follows (R. 196):

> "KNOW ALL MEN BY THESE PRESENTS, that in consideration of the sum of One Dollar ($1.00) and other good and valuable consideration to it in hand paid, LaMaur, Inc., a Minnesota corporation of Minneapolis, Minnesota, hereby assigns, transfers and sets over unto Tecnique, Inc., a Minnesota corporation, its successors and assigns, all of its right, title and interest in and to the Judgment and Decree as originally entered and as modified in the case brought in the United States District Court, District of Minnesota, Fourth Division, Civil No. 3232, entitled 'Albert Lapin, Isadore Lapin, Samuel Lapin, Harold Lapin, Plaintiffs, vs. LaMaur, Inc., a Minnesota corporation, Defendant', and in and to all sums of money that may be obtained by means thereof, or on any proceeding to be had thereupon, and in and to the Writ of Injunction issued thereunder under date of January 2, 1951, and in and to the Amended Writ of Injunction issued thereunder under date of July 5, 1951, and in and to any liens, levies, or rights arising therefrom.
>
> "IN TESTIMONY WHEREOF, the said corporation has caused these presents to be executed in its corporate name by its President and its Secretary, and its corporate seal to be hereunto affixed this 17th day of December, 1959.

(Corporate Seal)

Signed, Sealed and Delivered
in Presence of:
Benedict Deinard
Ivah Stewart

LA MAUR, INC.
By Maurice L. Spiegel
Maurice L. Spiegel
Its President
By Minnie R. Spiegel
Minnie R. Spiegel
Its Secretary"

The assignment by Tecnique of Minnesota to Tecnique of New Jersey dated December 18, 1959, of its rights in the Minnesota decree, reads as follows (R. 198):

> "KNOW ALL MEN BY THESE PRESENTS, that in consideration of the sum of One Dollar ($1.00) and other good and valuable consideration to it in hand paid, Tecnique, Inc., a Minnesota corporation, hereby assigns, transfers and sets over unto Tecnique, Inc., a New Jersey corporation, its successors and assigns, all of its right, title and interest in and to the Judgment and Decree as originally entered and as modified in the case brought in the United States District Court, District of Minnesota, Fourth Division, Civil No. 3232, entitled 'Albert Lapin, Isadore Lapin, Samuel Lapin, Harold Lapin, Plaintiffs, vs. LaMaur, Inc., a Minnesota corporation, Defendant', and in and to all sums of money that may be obtained by means thereof, or on any proceeding to be had thereupon, and in and to the Writ of Injunction issued thereunder under date of January 2, 1951, and in and to the Amended Writ of Injunction issued thereunder under date of July 5, 1951, and in and to any liens, levies, or rights arising therefrom.
>
> "IN TESTIMONY WHEREOF, the said corporation has caused these presents to be executed in its corporate name by its Vice President and its Secretary, and its corporate seal to be hereunto affixed this 18th day of December, 1959.
>
> (corporate seal)
>
> TECNIQUE INC.
> By Richard N. Parks
> Richard N. Parks
> Vice President
> Nicholas J. Livote
> Nicholas J. Livote
> Secretary"
>
> Signed, Sealed and Delivered in Presence of:
> Grace E. Branigan
> John K. Bangs

Tecnique of New Jersey had been organized by Shulton, Inc. on August 19, 1959 (R. 164) for the purpose of acquiring and continuing the business of Tecnique of Minnesota (R.

265-6). On that date, according to appellees' verified answers to appellants' interrogatories (R. 165, 169), stock purchase agreements were executed for the sale of all the capital stock of Tecnique of Minnesota to Tecnique of New Jersey (R. 165). According to the affidavit of John K. Bangs, House Counsel of appellees, Tecnique of New Jersey acquired all the stock of Tecnique of Minnesota and thereafter caused the dissolution of Tecnique of Minnesota, with the distribution of all its business and assets in liquidation to Tecnique of New Jersey, as sole shareholder (R. 266; App. Br., p. 6). Other documents, appellants claim, support the inference that the capital stock of Tecnique of Minnesota was transferred, not to Tecnique of New Jersey, but to appellee Shulton, Inc., so that on December 17 and 18, 1959, when Tecnique of Minnesota acquired the rights of LaMaur, Inc. in the Minnesota decree and re-assigned them to Tecnique of New Jersey, both the Minnesota and the New Jersey corporations were wholly-owned subsidiaries of Shulton, Inc. (App. Br., pp. 5-6). This issue of fact is immaterial, as shown in the Argument below.

On July 7, 1962, appellants filed a complaint in the United States District Court for the District of Southern California, alleging that both Shulton, Inc. and Tecnique of New Jersey maintained places of business in Los Angeles County (R. 2); that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc. (R. 2); that Shulton, Inc. has a consolidated net worth in excess of $28,000,000.00 and consolidated sales in excess of $57,000,000.00 (R. 7), while appellant Lapinal, Inc. has a net worth of approximately $110,000.00 and sales of $360,000.00 (R. 7); that Lapinal, Inc. has been engaged since 1951 in the manufacture and sale of Lapinal under increasing competition and financial disadvantages due to changed conditions arising since the issuance of the injunction of 1951 (R. 7); and that the changed conditions made the prospective application of the Minnesota decree inequitable (R. 7).

The action was brought under Rule 60(b) of the *Federal Rules of Civil Procedure* (R. 3) and prayed for judgment "dissolving the injunction issued on July 5, 1951 by the United States District Court for the District of Minnesota, Fourth Division, in Civil Action File No. 3232" (R. 7).

Service on Tecnique of New Jersey was sought to be made by service of a copy of the complaint on one Norton M. Breiseth, the Regional Manager of Shulton, Inc. in Los Angeles (R. 225).

On August 12, 1962, appellees filed a joint answer to the complaint which, among other things, recited the prior proceedings had in the Minnesota court and specifically "den[ied] that defendant Tecnique, Inc. maintains a place of business in the County of Los Angeles, State of California" (R. 8) or that "this action is maintainable in this Court under Rule 60(b) of the Federal Rules of Civil Procedure" (R. 8). The answer set forth as affirmative defenses that the action was maintainable only in the Minnesota court and that Tecnique of New Jersey was an indispensable party but did no business in the County of Los Angeles, State of California, and was not duly served, as follows (R. 20-1):

"SECOND DEFENSE

I.

"If as alleged in the Complaint, there have been such changed conditions as to render the prospective application of said injunction of 1951 inequitable, the relief prayed for may not be granted by this Court or by any Court, save by the United States District Court for the District of Minnesota, Fourth Division, which made and entered the original and Amended Decrees of Injunction.

"THIRD DEFENSE

I.

"This Court lacks jurisdiction over the person of defendant Tecnique, Inc., in that said defendant does not do business and cannot be found in the County of Los Angeles, State of California, and the attempted service on it by delivery of a copy of the Complaint to defendant Shulton, Inc. does not constitute valid service on defendant Tecnique, Inc.

II.

"Defendant Tecnique, Inc. is an indispensable party to the maintenance of this action.

"FOURTH DEFENSE

I.

"Allege that the Complaint fails to state a claim upon which relief can be granted."

On September 6, 1962, appellants served on appellees 124 interrogatories (R. 100-123). Interrogatories 1-41 related to jurisdictional facts, such as the employment of personnel by Tecnique of New Jersey in California and its relations with Shulton, Inc. All of these interrogatories were answered on October 26, 1962, save and except a part of Interrogatory 26 (as to the price paid by Shulton, Inc. for certain shares of stock), which was objected to as immaterial (R. 159-169).

From the verified answers of appellees to appellants' interrogatories 1 through 41, it appeared that Tecnique of New Jersey had no employees operating in California since September, 1959 (R. 159); that it maintained no stock of merchandise in California (R. 160); and that Shulton, Inc. had not at any time since 1959 solicited any orders or otherwise conducted business in California on behalf of Tecnique of New Jersey (R. 160). It further appeared that Tecnique of New Jersey maintained books of account and bank accounts separate from those of Shulton, Inc. (R. 161), as well as a separate sales force and administrative staff (R. 161), although it occupied the same premises as defendant Shulton, Inc. in New Jersey, maintained no manufacturing or warehouse facilities separate from those of Shulton, Inc. (R. 161), and the majority of its Board of Directors and officers were also officers and directors of Shulton, Inc. (R. 162-3).

The remaining interrogatories, 42-124, related to the chemical formulas used in the manufacture of Tecnique; the chemical and competitive relation of Tecnique to other competing products manufactured by ten or more other concerns; the volume of defendants' business in the sale of Tecnique and the amounts expended for advertising the same; and requested particulars as to various defenses alleged in the answer. On October 15, 1962, all interrogatories 42-124 were objected to by appellees (R. 125, 126-50).

On October 23, 1962, appellees served interrogatories on appellants which in general asked for particulars as to the "changed conditions" alleged in the complaint and, specifically inquired whether appellants claimed that the formulas and processes for the manufacture of Tecnique and Lapinal were secret on the date of issuance of the Minnesota decree in 1951, whether appellants claimed that there had been a change since the date of the Minnesota decree in the extent of secrecy in said formulas or processes and, if so, by whom and in what manner such change had been brought about (R. 152-57).

On November 1, 1962, appellants filed objections to appellees' interrogatories in which appellants alleged, among other things, that the Minnesota court "has previously found that said formulas or processes were a secret * * * on the date of issuance of said injunction in 1951" (R. 172, 174).

Appellees' objections to certain of appellants' interrogatories were originally noticed for hearing on October 29, 1962 (R. 125), but were thereafter re-set for hearing on November 19, 1962, the same date on which appellants' objections to appellees' interrogatories were set down for hearing (R. 125, 171).

On November 14, 1962, appellees moved to dismiss the complaint and noticed the motion for hearing on November 19, 1962 (R. 179). The grounds recited in the motion were that the service of process on Tecnique of New Jersey was invalid and that corporation was an indispensable party (R. 179).

The motion was based in part on "all of the records, files and documents in this cause", as well as two affidavits of Nicholas J. Livoti and one of Norton M. Breiseth (R. 180-1). The affidavit of Breiseth recited that he was the Regional Manager of Shulton, Inc. but that he held no office or position in Tecnique of New Jersey and had rendered no services to that corporation (R. 183-4). One of Livoti's affidavits recited that he was the Assistant Secretary of Shulton, Inc. and Secretary of Tecnique of New Jersey, and attached true and correct copies of (1) the bill of sale of the formulas and processes for the manufacture of Tecnique from the Lapins to LaMaur; (2) the bills of sale transferring all interest in the formulas and processes from LaMaur to Tecnique of Minnesota and from Tecnique of Minnesota, in turn, to Tecnique of New Jersey; and (3) the assignments by LaMaur to Tecnique of Minnesota of all its interest in the Minnesota decree of injunction and the transfer by Tecnique of Minnesota, in turn, of all the interest so acquired to Tecnique of New Jersey (R. 190-199). The other affidavit of Livoti recited that Tecnique of New Jersey had orally licensed Shulton, Inc. to manufacture and sell "Tecnique" in consideration of royalty payments of 5% on the first $1,000,000.00 of sales of "Tecnique" by Shulton, Inc. in any one year, and 4% of all such sales above $1,000,000.00 in any one year (R. 187).

The motion to dismiss further recited that it was based in part on "Defendants' Statement of Reasons in Support of

This Motion" (R. 180-1). The accompanying "Statement of Reasons in Support of Defendants' Motion to Dismiss" included as a separate ground what had been inadvertently omitted from the text of the motion, that an action to dissolve the Minnesota decree of 1951 was maintainable, if at all, only in the Minnesota court where the decree was originally issued (R. 201, 204).

At the hearing below, held on November 20, 1962, counsel for appellants initially objected to argument on the alternative ground because, although it was discussed in the "Statement", it was not recited in the motion (R. Vol. 2, p. 11). He then stated to the court, however, that "If you wish to permit this argument today I will argue it because I have read the cases, but I would like permission of the court then to file our memorandum subsequently because we were caught on an order to shorten time", permission which the court below granted (R. Vol. 2, pp. 12-13). Thereafter, counsel for appellants in the course of his argument stated with respect to this alternative ground that "the other part of this motion to which I objected, * * * I will argue because I have read the motion papers" (R. Vol. 2, p. 50) and then proceeded to discuss and attempt to distinguish each of the cases cited on this point in appellees' "Statement" (R. Vol. 2, pp. 50-1).

At the date of hearing, no deposition had been noticed for taking by appellants, save one, which was withdrawn at the close of the hearing. While present in Los Angeles to attend the hearing, counsel for appellees, Melvin H. Siegel, was served with a notice of the taking of his deposition and a subpoena to attend the same (R. Vol. 2, pp. 3-4). In response to appellees' motion to quash the notice and subpoena or, alternatively, to require that the deposition be taken by interrogatories or on oral examination at the residence of appellees' counsel, Minneapolis, Minnesota (R. Vol. 2, pp. 5-6) appellants' counsel asserted that the deposition was noticed because it was the "only" way he had to ascertain the facts and circumstances surrounding the transfer of the capital stock of Tecnique of Minnesota in 1959 (R. Vol. 2, pp. 6-8). Although the record does not so recite, the notice and subpoena, however, were withdrawn when counsel for appellees stated that he would not appear in any case unless paid his costs of transportation from Minneapolis and per diem. The statement in appellants' brief that this matter was held in abeyance pending ruling on the motion to dismiss (App. Br., p. 9) is completely unfounded.[2]

On December 4, 1962, the court below entered its order granting appellees' motion to dismiss (R. 225) upon the ground that Tecnique was the apparent owner of the decree of injunction sought to be dissolved and therefore an indispensable party and had not been duly served (R. 226-7). The court added that, while the foregoing was determinative of the matter, the court was "of the opinion that the relief sought by the plaintiff should only be sought by motion in the District Court where the original decree was issued" (R. 227).

On December 12, 1962, appellants moved to amend and modify the judgment pursuant to Rule 59 of the *Rules of Civil Procedure,* and prayed for an order as follows (R. 234, 237):

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[2]The reporter's transcript of the proceedings of November 20, 1962 is only a "partial transcript" of those proceedings (R. Vol. 2, p. 73). At the time of the designation of the record on appeal, appellees had no reason to believe that any claim would be made that the motion to quash the notice of taking the mentioned deposition was still pending and the ruling thereon held in abeyance pending decision on the motion to dismiss. Now that this claim has been made, appellees have requested that the reporter's notes of the proceedings in this connection be transcribed for transmittal to this court, if the notes have been preserved. Unless appellants withdraw the unfounded claim made in this connection, appellees will move this court to enlarge the record by including the transcript of the proceedings below on this point, or other record of the disposition of the notice to take the deposition of appellees' counsel.

1. For a re-hearing so as to permit appellants to make a matter of record the documents referred to in argument of appellants' counsel (R. 234).

2. To grant appellants leave to take additional evidence by deposition or affidavit on the issues of jurisdiction raised by the motion to dismiss (R. 234, 257).

3. To grant appellants a plenary trial on the jurisdictional issues on the ground that they overlapped in material part the substantive issues of fact involved in the merits (R. 234, 261).

4. To modify the judgment so as to provide that the same would be "without prejudice" (R. 234, 257).

On April 29, 1963, the court below overruled the motion for re-hearing, excepting that it permitted the record to show that the documents referred to by appellants' counsel at the argument on the motion to dismiss were formally made a part of the record, and modified the judgment so as to provide that the same was "without prejudice to the bringing of another action when and if it appears that the court can obtain jurisdiction of the defendant Tecnique, Inc." (R. 273, 278).

The court below stated that in its order of December 4, 1962 it had "made no finding that Tecnique of New Jersey is in legal effect the owner of the decree of injunction", but that "the purport of that Order is that, because of its *apparent* ownership, Tecnique of New Jersey is an indispensable party to any action which seeks to extinguish such injunction and consequently the rights therein" (R. 276). The court added that, "Being of the opinion that the present action is properly maintainable only in the District Court where the decree of injunction was rendered * * *, I cannot feel that failure to treat Tecnique as a sham at this time leads to an inequitable result" (R. 277).

QUESTIONS PRESENTED

The questions presented are:

1. Whether, under Rule 12(d), *Federal Rules of Civil Procedure,* which directs that certain jurisdictional and other specified defenses, whether made in a pleading or by motion, be heard and determined before trial on application of any party unless the court otherwise determines, the court below had power to hear and determine appellees' motion to dismiss on jurisdictional grounds first alleged in the answer.

2. Whether the court below had power to hear and determine jurisdictional defenses without prejudice on affidavits, without regard to the requirements of Rule 56, *Federal Rules of Civil Procedure,* for granting summary judgment on the merits.

3. Whether on the evidence before it the court below correctly determined that Tecnique of New Jersey, the apparent owner of the Minnesota decree of injunction, was an indispensable party to an action to dissolve that injunction, and was not subject to service in the Southern District of California.

4. Whether the court below properly exercised its discretion in denying a motion for re-hearing to permit appellants to obtain additional facts on the jurisdictional issues by affidavits and further pretrial discovery.

5. Whether, in determining without prejudice that Tecnique of New Jersey was so far the apparent owner of all rights in the Minnesota injunction as to make it an indispensable party, without making a final determination whether it was in fact the true owner of such rights, the court below decided a substantive issue on which a plenary hearing was required.

6. Whether an action to dissolve the Minnesota decree is maintainable in any court other than the Minnesota court which entered it.

1. For a re-hearing so as to permit appellants to make a matter of record the documents referred to in argument of appellants' counsel (R. 234).

2. To grant appellants leave to take additional evidence by deposition or affidavit on the issues of jurisdiction raised by the motion to dismiss (R. 234, 257).

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The court below stated that in its order of December 4, 1962 it had "made no finding that Tecnique of New Jersey is in legal effect the owner of the decree of injunction", but that "the purport of that Order is that, because of its *apparent* ownership, Tecnique of New Jersey is an indispensable party to any action which seeks to extinguish such injunction and consequently the rights therein" (R. 276). The court added that, "Being of the opinion that the present action is properly maintainable only in the District Court where the decree of injunction was rendered * * *, I cannot feel that failure to treat Tecnique as a sham at this time leads to an inequitable result" (R. 277).

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4. Whether the court below properly exercised its discretion in denying a motion for re-hearing to permit appellants to obtain additional facts on the jurisdictional issues by affidavits and further pretrial discovery.

5. Whether, in determining without prejudice that Tecnique of New Jersey was so far the apparent owner of all rights in the Minnesota injunction as to make it an indispensable party, without making a final determination whether it was in fact the true owner of such rights, the court below decided a substantive issue on which a plenary hearing was required.

6. Whether an action to dissolve the Minnesota decree is maintainable in any court other than the Minnesota court which entered it.

SUMMARY OF ARGUMENT

I.

Tecnique of New Jersey is, without dispute, the apparent owner of record of all right, title and interest in the Minnesota decree issued in 1951 and is, therefore, an indispensable party to an action to dissolve that decree. Assuming, contrary to fact, that there were any question as to the validity of the transfer of all interest in the Minnesota decree to Tecnique of New Jersey, that question cannot be adjudicated in a proceeding to which Tecnique of New Jersey is not a party. This is so notwithstanding that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc., a party to the proceeding, and a majority of its directors and officers are likewise directors and officers of Shulton, Inc.

Tecnique of New Jersey does not do business in California and is not subject to service in the Southern District of California. The purported service of process on the managing agent of Shulton, Inc., therefore, did not constitute valid service on Tecnique of New Jersey. The separate corporate identities of Shulton, Inc. and Tecnique of New Jersey, while formal, are real and may not be disregarded for jurisdictional purposes. Doing of business by Shulton, Inc. in California for its own account, therefore, does not constitute doing of business in that state by Tecnique of New Jersey so as to subject the latter to suit or service in the Southern District of California. The business done by Shulton, Inc. in California, moreover, was done on its own account and not as an agent for Tecnique of New Jersey, and hence does not constitute doing of business by Tecnique of New Jersey in that state.

The court below properly determined these issues on appellees' motions to dismiss made after answer. The defenses were duly raised in the answer, and under Rule 12(d) the

District Court had the power to make a determination of these issues on application of either party. The determination was properly made on affidavits. The issue was one for the court and in the court's discretion could be determined on affidavits. The precedents for so determining such issues are legion. There was no abuse of discretion in denying appellants leave to reopen in order to obtain further facts by affidavits or additional discovery.

The issues raised on the motion to dismiss are in no way involved in the merits so as to require a plenary hearing. No genuine dispute can be raised as to the validity of the interest of Tecnique of New Jersey in the Minnesota decree. But, if there were such a dispute, it sufficiently appears that Tecnique of New Jersey claims an interest in that decree and its claim cannot be adjudicated adversely to Tecnique of New Jersey in a proceeding to which it is not a party. It is unnecessary to determine finally whether Tecnique of New Jersey is in fact the true owner of all rights in the Minnesota decree in order to resolve that question finally on the merits. It is enough to find, as plainly appears, that Tecnique of New Jersey has such an apparent claim, that its interest cannot be adversely determined in a proceeding to which it is not a party.

II.

This is sufficient ground on which to affirm the decision below. Alternatively, the same result should be reached on the ground that the action to dissolve the Minnesota decree, if maintainable at all, may be brought only in the Minnesota court which entered the decree in 1951. There is precedent, it is true, for the maintenance of an independent action in another court to vacate a judgment or decree on the grounds of extrinsic fraud. An action to modify or dissolve a decree of injunction because of changed conditions, however, stands upon a different footing. The power to modify or dissolve such a decree rests on the continuing power of the *issuing* court to supervise the enforcement of its own decrees. Accordingly, application to modify or dissolve such a decree may be made properly only to the court which entered it.

Assuming there could ever be an exception to this general principle, the present proceeding is one which should be brought only in the court which entered the Minnesota decree. It plainly appears that appellants claim and will claim that one of the changed conditions warranting a dissolution of the decree of injunction is that the formulas and processes for the manufacturing of Tecnique and Lapinal were found by the Minnesota court to be secret at the time the original decree of injunction was entered in 1951 but are no longer secret at the present time. An important question is thus presented as to the construction of the original decree, which should be resolved by the Minnesota court. Whether the issue of secrecy was ever tried in the Minnesota court does not appear, but it does appear that that court made no finding that the formulas and processes were secret at the time of trial, though it did find that the Lapins had represented them to be secret. No transcript of the proceedings was ever prepared and the court reporter's notes have not been preserved, so that resort to the minutes of the trial court may be necessary to determine whether the issue of secrecy was ever tried.

ARGUMENT

I.

The court below correctly held that appellee Tecnique, Inc. of New Jersey is an indispensable party and had not been properly served.

There is no dispute that Tecnique of New Jersey is the apparent owner of the Minnesota decree which appellants' action seeks to dissolve. There is also no dispute that Tecnique of New Jersey was not subject to service in the Southern District of California unless it was doing business in California. This is so whether the service was made under Rule 4(d)(3), *Federal Rules of Civil Procedure,* or subparagraph (7) of Rule 4(d), which permits service in the manner prescribed by the law of the state in which the service is made.

2 *Moore's Federal Practice,* Sec. 4.25, p. 969 (2d Ed. 1962).

Under Section 1391 of Title 28 *U.S.C.,* moreover, an action not founded solely on diversity of citizenship may be brought only where all of the defendants reside, that is, in the case of a corporation, where it is "doing business". Without dispute, this action is one brought to enforce an alleged federal right under Rule 60(b) to dissolve a decree of injunction by another Federal court.

The answer duly reserved the objection to service on Tecnique of New Jersey on each of these grounds,

Camp v. Gress, 250 U.S. 308, 311, 63 L.Ed. 997, 1000 (1919);

Shall v. Henry, 211 F.2d 226, 228 (C.A. 7, 1954),

and to the jurisdiction of the court for failure to serve an indispensable party, Tecnique of New Jersey. The court below correctly determined these jurisdictional issues on motion to dismiss thereafter made by appellees. The court below had the power to make this determination on affidavits in advance of trial, but without prejudice. No substantive issue involved on the merits was presented or decided.

A. THE COURT BELOW HAD POWER TO HEAR AND DETERMINE APPELLEES' MOTION TO DISMISS ON AFFIDAVITS.

The court below had the power to determine the jurisdictional issues raised by appellees' motion to dismiss, though these defenses were first asserted in the answer. Contrary to appellants' suggestion (App. Br., pp. 30-1), Rule 12 clearly authorized the court below to do so. Rule 12(d) provides:

> "(d) PRELIMINARY HEARINGS. The defenses specifically enumerated (1) – (7) in subdivision (b) of this rule, whether made *in a pleading* or by motion, and the motion for judgment mentioned in subdivision (c) of this rule shall be heard and determined before trial on application of any party, unless the court orders that the hearing and determination thereof be deferred until the trial." (Italics supplied.)

There can be no serious doubt that Rule 12(d) extends to defenses of lack of jurisdiction of the person, improper venue or insufficiency of process or service of process.

> 2 *Moore's Federal Practice,* Sec. 12.16, pp. 2274-5 (2d Ed. 1962).

The court below, it is equally clear, had power to hear and determine such issues on motion and affidavit. Contrary to appellants' suggestion (App. Br., p. 31), the court below was not required, in resolving such issues on affidavits, to observe the limitations prescribed by Rule 56 for the granting of summary judgment on the merits. No extended discussion of this question is required, in view of the full and authoritative opinion of Judge Mathes in

> *Williams, et al., v. Minnesota Mining & Manufacturing Co., et al.,* 14 F.R.D. 1 (S.D. Cal. 1953),

approved by this Court in

Pensick & Gordon, Inc. v. California Motor Express, 302 F.2d 391 (C.A. 9, 1962), rev. on other grounds 9 L.Ed. 2d 227.

B. ON THE EVIDENCE BEFORE IT, THE COURT BELOW PROPERLY FOUND THAT TECNIQUE OF NEW JERSEY WAS AN INDISPENSABLE PARTY AND HAD NOT BEEN DULY SERVED.

1. *The court below properly found that Tecnique of New Jersey was an indispensable party.*

There can be no genuine dispute that appellee Tecnique of New Jersey is the apparent owner of record of the original decree of injunction issued by the United States District Court for the District of Minnesota. The formal genuineness of the instruments of assignment by which LaMaur, the original owner, assigned its right, title and interest to Tecnique of Minnesota on December 17, 1959 and the latter corporation in turn assigned all its right, title and interest to appellee Tecnique of New Jersey, is not disputed. Tecnique of New Jersey is, therefore, an indispensable party to an action to dissolve the injunction, even though it is a wholly-owned subsidiary of appellee Shulton, Inc. and the two corporations have a majority of directors and officers in common. It is elementary that the owner of record of the legal title, even if only the bare legal title as in the case of a bailment or escrow, is an indispensable party to a suit in which the title may be adversely affected.

3 *Moore's Federal Practice,* Sec. 19.12, pp. 2171-2 (2d Ed., 1962);

cf. *Clinton v. International Organization of Machinists, etc.,* 254 F.2d 370 (C.A. 9, 1958);

Warfield v. Marks, 190 F.2d 178 (C.A. 5, 1951).

It is wholly immaterial that the owner of record of such legal title is a wholly-owned and controlled subsidiary of another corporation which is a party to the action.

Niles-Bement-Pond Company v. Iron Molders' Union, 254 U.S. 77, 65 L.Ed. 145 (1920).

The case of *Niles-Bement-Pond Company v. Iron Molders' Union, supra,* is a controlling authority. In that case, the parent corporation was a New Jersey corporation, and the subsidiary corporation was an Ohio corporation. The parent owned the controlling stock interest in the subsidiary, and the same individuals were President and Vice-President, respectively, of both corporations. The parent New Jersey corporation made a contract with the United States to furnish certain machinery, tools, etc., and, to use the language of the Supreme Court, "passed" the "manufacture" to the subsidiary, the parent remaining liable for the performance of the contract.

The facts as alleged and proved were that former employees of the subsidiary had conspired to prevent the employees who replaced them from going to and from their homes; the purpose of such conspiracy being to prevent the parent from performing its contracts with the government. It was asserted that the action of the former employees constituted interference with the employees. The court held that such allegations were sufficiently proved.

The Supreme Court held, however, that the subsidiary was an "indispensable" party because the action was based upon an interference by the former employees with the contracts of employment between the subsidiary and the new employees who took the place of the former ones. At the same time, the Supreme Court held that because of the complete control of the parent over the subsidiary, the two corporations could not be regarded as genuinely adverse parties, and that the subsidiary, therefore, must be realigned as a party plaintiff, and that as a result there was no diversity of citizenship between all of the plaintiffs and all of the defendants, since, although the parent was a New Jersey corporation, the subsidiary was an Ohio corporation, and all the former employees who were joined as defendants were likewise citizens of Ohio.

In holding that the subsidiary (the "tool" company) was an indispensable party, the Court said (254 U.S. at 80-1, 65 L.Ed. at 148):

> "The case we are considering is essentially one on the part of the petitioner to protect from interference by striking former employees of the Tool Company the contract which that company had with the men employed by it to take their places. Petitioner's claim of right, the validity of which we are not called upon to determine, is rested wholly upon the contract of the Tool Company with its employees, and the character and construction of that contract of employment must inevitably be passed upon in any decision of the case; and, obviously, if the petitioner should fail in such a suit as this, with the Tool Company not a party, any decree rendered would not prevent a relitigating of the same questions in the same or in any other proper court, and it would settle nothing.
>
> "*Thus, if the Tool Company be considered as having any corporate existence whatever separate from that of the petitioner,* it must have an interest in the controversy, involved in such a case as we have here, of a nature such that a final decree could not be made without affecting that interest, and perhaps not without leaving the controversy in a condition wholly inconsistent with that equity which seeks to put an end to litigation by doing complete and final justice; and therefore it must be concluded that it was an indispensable party, within the quoted long established rule." (Italics supplied.)

On the question of the realignment of parties, however, the court held that the relationship between parent and subsidiary prevented the existence of any real conflict of interest between them, and held that the subsidiary therefore had to be realigned as a party plaintiff, rather than as a party defendant. On this point, the Court said (254 U.S. at 81-2, 65 L.Ed. at 148):

> "Plainly, the appellant was not mistaken when it made the Tool Company a party to the suit. But making it a party defendant could not give to the district court jurisdiction against the objection of another party, or over the court's own scrutiny of the record, unless there existed a genuine controversy between it and the plaintiff, the petitioner. (Citation.) That there was not, and could not be, any substantial controversy, any 'collision of interest', between the petitioner and the Tool Company, is, of course, obvious from the potential control which the ownership of stock by the former gave it over the latter company, and from the actual control effected by the membership of the board of directors and by the selection of executive officers of the two companies, which have been described.
>
> "Looking, as the court must, beyond the pleadings and arranging the parties according to their real interest in the dispute involved in the case (citations), it is clear that the identity of interest of the Tool Company with the petitioner required that the two be aligned as plaintiffs, and that with them so classified, the case did not present a controversy wholly between citizens of different states, within the jurisdiction of the district court (citations)."

It is immaterial whether, as appellants claim, the documents support an inference that on December 17 and 18, 1959, when the rights of LaMaur under the original decree of injunction were assigned to Tecnique of Minnesota and reassigned by the latter to Tecnique of New Jersey, all shares of stock of the Minnesota corporation had been transferred to Shulton, Inc. so as to make it, as well as the New Jersey corporation, a wholly-owned subsidiary of Shulton, Inc. It may be assumed, *arguendo*, that the affidavits of Livoti and Bangs that the stock of the Minnesota corporation had been transferred to Tecnique of New Jersey were in error on this point.

The suggestion, however, that the reassignment was merely a "formal" act by "two servants of the same master without genuine substance or significance" (App. Br., p. 35) hardly rises to the dignity of an argument. But, if it be supposed that the apparent interest of Tecnique of New Jersey as owner of record could ever be questioned on such grounds, its claim to ownership of the Minnesota decree cannot be adversely determined in a proceeding to which it is not a party. It is elementary that where there are several claims to a fund or other property, title cannot be adjudicated without joining each of the claimants.

> *Williams v. Bankhead,* 19 Wall. 563, 22 L.Ed. 184 (1874);
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> *Brown v. Fletcher,* 231 F. 92, 95 (C.A. 2, 1916);
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> *Ducker v. Butler,* 104 F.2d 236, 239 (C.A. D.C. 1939);
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> *South Penn Oil Co. v. Miller,* 175 F. 729, 736 (C.A. 4, 1909);
>
> cf. *United States v. Bank of New York & Trust Co.,* 296 U.S. 463, 480, 80 L.Ed. 331, 341 (1936).

2. *The court below properly found that Tecnique of New Jersey had not been properly served.*

Without dispute, the attempted service of Tecnique of New Jersey by service on Mr. Breiseth, the managing agent of Shulton, Inc. in California, did not constitute valid service on Tecnique of New Jersey unless, as appellants argue, either the separate corporate identity of Tecnique of New Jersey is a sham which may be ignored, or Tecnique of New Jersey did business in California through the instrumentality of Shulton as its agent. The court below properly found that neither basis existed for service on Tecnique of New Jersey by service on the managing agent of Shulton, Inc.

It is elementary, of course, that where, as here, the validity of service is brought in question, the burden of proof of establishing the sufficiency of the service is on the party asserting it, in this case, that is, on the appellants.

McNutt v. General Motors Acceptance Corp., 298 U.S. 178, 80 L.Ed. 1135 (1936);

Pure Oil Co. v. Puritan Oil Co., 127 F.2d 6 (C.A. 2, 1942);

Amtorg Trading Corp. v. Standard Oil Co., 47 F.Supp. 466 (S.D. N.Y. 1942).

Appellants failed to meet this burden. On the contrary, it affirmatively appeared beyond reasonable dispute that Tecnique of New Jersey was not a sham but a genuine, separate corporation and that it did not employ Shulton as its agent to do business in California.

Appellants' claim to the contrary is in essence founded on the facts that Tecnique of New Jersey is a wholly-owned subsidiary of Shulton, Inc. and that the majority of its board and officers are likewise members of the board and officers of Shulton, Inc. It is settled that these circumstances are insufficient to warrant piercing the corporate veil for service of process where, as here, the formal separateness of the parent and subsidiary are maintained in the maintenance of separate corporate books and records.

Cannon Mfg. Co. v. Cudahy Packing Co., 267 U.S. 333, 335, 69 L.Ed. 634, 641 (1925);

Harris v. Deere and Company, 128 F.Supp. 799 (E.D. N.C. 1955), aff'd 223 F.2d 161 (C.A. 4, 1955);

Ludwig v. General Binding Corp., 21 F.R.D. 178 (E.D. Wis. 1957);

Matrozos v. Gulf Oil Corp., 54 F.Supp. 714 (S.D. N.Y. 1943);

A. G. Bliss Co. v. United Carr Fastener Co., 116 F.Supp. 291 (D.C. Mass. 1953), aff'd 213 F.2d 541.

The additional circumstance that Tecnique of New Jersey has no separate manufacturing or warehouse facilities, on which appellants also rely (App. Br., pp. 24-5), is obviously immaterial. The practice of separating manufacturing and sales in separate corporations is a common one and affords no basis for the claim that a subsidiary engaged wholly in sales activities can be served by service of process on an affiliated corporation which manufactures and supplies the selling company with products for resale.[3]

Cannon Mfg. Co. v. Cudahy Packing Co., supra;
Harris v. Deere and Company, supra.

The decision in *Cannon Mfg. Co. v. Cudahy Packing Co.* is controlling. In that case, the plaintiff brought an action in North Carolina against the defendant, a Maine corporation. The defendant moved to dismiss for lack of jurisdiction, on the ground that the only service made was on the Cudahy Packing Company of *Alabama,* a subsidiary of defendant, and that defendant itself was not doing business within the State of North Carolina, so as to render it amenable to service there.

The Supreme Court, speaking through Justice Brandeis, unanimously affirmed a judgment of dismissal. In so doing, the Court recognized that defendant exercised complete control of the Alabama subsidiary. As to this, the court said (267 U.S. at 335, 69 L.Ed. at 641):

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[3]Obviously no significance can be attached to the further fact, mentioned by appellants (App. Br., p. 27), that the President of Shulton, Inc. and the house counsel of both appellees responded to inquiries made to the President of Shulton, Inc. by representatives of appellants as to the possibility of settlement before this action was commenced (R. 247-8). If, as appellants point out (App. Br., p. 27), Tecnique of New Jersey on one occasion used the letterhead of Shulton in circulating its "professional Tecnique line", the letter was signed on behalf of "Tecnique, Inc.", not Shulton, Inc. (R. 246).

"The Alabama corporation, which has an office in North Carolina, is the instrumentality employed to market Cudahy products within the state; but it does not do so as defendant's agent. It buys from the defendant and sells to dealers. In fulfilment of such contracts to sell, goods packed by the defendant in Iowa are shipped direct to dealers; and from them the Alabama corporation collects the purchase price. Through ownership of the entire capital stock and otherwise, *the defendant dominates the Alabama corporation, immediately and completely;* and exerts its control *both commercially and financially* in substantially the same way, and *mainly through the same individuals* as it does over those selling branches or departments of its business not separately incorporated which are established to market the Cudahy products in other states." (Italics supplied.)

The court, however, found that the two corporations were, for purposes of service, separate and distinct because separate books and records were maintained. As to this, the court said (267 U.S. at 335, 69 L.Ed. at 641-2):

"The existence of the Alabama company as a distinct corporate entity is, however, in all respects observed. Its books are kept separate. All transactions between the two corporations are represented by appropriate entries in their respective books in the same way as if the two were wholly independent corporations. This corporate separation from the general Cudahy business was doubtless adopted solely to secure to the defendant some advantage under the local laws."

For the reason stated, the court concluded:

"The corporate separation, though perhaps merely formal, was real. It was not pure fiction." (267 U.S. at 337, 69 L.Ed. at 642.)

The *Cannon* case, to be sure, involved an attempt to serve the parent corporation by service on the subsidiary, but its rule is equally applicable in the converse situation where service on the subsidiary is sought to be made by service on the parent.

A. G. Bliss Co. v. United Carr Fastener Co., 116 F.Supp. 291 (D.C. Mass. 1953), aff'd 213 F.2d 541 (C.A. 1, 1954).

The distinction between Shulton, Inc., the parent, and Tecnique of New Jersey, therefore, however formal, is not a sham and may not be disregarded for purposes of jurisdiction.

There is likewise no basis for any claim that Tecnique of New Jersey, treated as a separate corporation, did do business in fact in California through the agency of Shulton, Inc. No suggestion to this effect was made at all at the hearing on the motion to dismiss. In support of the motion for rehearing, appellants for the first time advanced such a claim (R. 234, unnumbered p. after 240). But, as shown in Point I, C, immediately below, the court below properly overruled the motion for re-hearing.

C. THE COURT BELOW PROPERLY EXERCISED ITS DISCRETION IN DECLINING TO GRANT APPELLANTS A RE-HEARING TO ALLOW THEM FURTHER PRE-TRIAL DISCOVERY ON THE JURISDICTIONAL ISSUES.

We recognize, of course, that the trial court in its discretion "may" continue a hearing to permit further discovery on jurisdictional, as well as on other, issues. See

Ziegler Chemical & Mineral Corp. v. Standard Oil Corp. of Cal., 32 F.R.D. 241, 243 (N.D. Cal. 1962),

particularly since, "As there is no stautory direction for procedure upon an issue of jurisdiction, the mode of determination is left to the trial court",

Gibbs v. Buck, 307 U.S. 66, 71-2, 83 L.Ed. 1111 (1939).

But an application for continuance is, in any case, "purely a matter of discretion",

Isaacs v. United States, 159 U.S. 487, 489, 40 L.Ed. 229, 230 (1895), "The Alabama corporation, which has an office in North Carolina, is the instrumentality employed to market Cudahy products within the state; but it does not do so as defendant's agent. It buys from the defendant and sells to dealers. In fulfilment of such contracts to sell, goods packed by the defendant in Iowa are shipped direct to dealers; and from them the Alabama corporation collects the purchase price. Through ownership of the entire capital stock and otherwise, *the defendant dominates the Alabama corporation, immediately and completely;* and exerts its control *both commercially and financially* in substantially the same way, and *mainly through the same individuals* as it does over those selling branches or departments of its business not separately incorporated which are established to market the Cudahy products in other states." (Italics supplied.)

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But an application for continuance is, in any case, "purely a matter of discretion",

Isaacs v. United States, 159 U.S. 487, 489, 40 L.Ed. 229, 230 (1895), and may, therefore, be denied where the additional discovery "would have done no good" because the evidence sought thereby would not affect the determination of the issue.

City of Coral Gables v. Hayes, 74 F.2d 989, 990 (C.A. 5, 1935);

Wong Ken Foon v. Brownell, 218 F.2d 444, 446 (C.A. 9, 1955);

Fouts v. Fawcett Publications, 116 F.S. 535, 537 (D.C. Conn. 1953).

Where, as here, an application for continuance pending completion of discovery is made on a motion for re-hearing, the trial court obviously has a particularly broad discretion to grant or deny the application.

6 *Moore's Federal Practice,* Secs. 59.07, 59.08(3), pp. 3773, 3784 (2nd Ed., 1962).

The court below did not abuse its discretion in determining the jurisdictional issue without additional pre-trial discovery. A sufficient reason is that there was no request for a continuance to complete discovery pending before the court when the motion to dismiss was granted.

Appellants' discovery on jurisdictional issues was in fact completed, so far as then appeared, when the question of dismissal was submitted for the court's determination. Appellants' contention to the contrary (App. Br., p. 31) is wholly without foundation.

Appellees had answered all appellants' interrogatories 1 through 41, with one immaterial exception, relating to jurisdiction, on October 26, 1962 (R. 159).[4] The documents re-

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[4]The documents relating to the transfer of the capital stock of Tecnique of Minnesota, which were identified in the answers to appellants' interrogatories, would thereafter have been subject to an order to produce under Rule 34, Federal Rules of Civil Procedure, had they been material. But, as previously noted, they related to the wholly specious claim that, if "the seller of the shares of Tecnique Minnesota was LaMaur", and "the buyer * * * was Shulton, Inc." (R. Vol. 2, p. 41), then the assignment by Tecnique of Minnesota of all

ferred to by appellants' counsel in his argument at the hearing had been collated by appellants even before the interrogatories had been served on the appellees on September 5, 1962 (R. 237, 240 through unnumbered page following 240; cf. R. 100). On the basic issue whether Shulton in fact conducted any business in California as agent for Tecnique of New Jersey, appellants did not subpoena Mr. Breiseth, regional manager of Shulton, who resided in Los Angeles, for oral examination at the hearing, although admittedly they could have subpoenaed anyone residing within the jurisdiction of the Southern District of California (R. Vol. 2, p. 7).

Appellants did state at the hearing that further discovery was needed to determine whether the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., so that, as appellants claimed, the transfer of any rights in the Minnesota decree by that corporation to Tecnique of New Jersey was "a conveyance from one set of Shulton employees under one name to another set of Shulton employees with another name" (R. Vol. 2, p. 41; cf. App. Br. p. 35), a claim which was plainly specious and unrelated to the jurisdictional issues, as shown in Point I, B, 1, *supra*. Appellants asserted, moreover, that even on this point discovery could "only" be obtained by taking the deposition of appellees' counsel, Melvin H. Siegel, and notice of taking his deposition was served while appellees' counsel was in Los Angeles for the hearing (R. Vol. 2, pp. 3-4). But subsequently, as stated,

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its interest in the Minnesota decree to Tecnique of New Jersey would have been merely "formal acts by two servants of the same master without genuine substance or significance" (App. Br., p. 35), a claim plainly without merit, as shown in Point I, B, 1, supra. Moreover, it was assumed at the hearing that appellants were correct in asserting that the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., rather than to Tecnique of New Jersey. Counsel for appellees, as pointed out in appellants' brief (pp. 23-4), so stated at the hearing, and his statement, though based on an inadvertent misreading of appellees' answers to the interrogatories in this respect (*cf.* R. 165), was the basis on which the motion was submitted.

appellants withdrew this notice when demand was made for tender of transportation expense from Minneapolis.

Whatever suggestions were made for the need of further discovery at the hearing, moreover, they were not continued or made the basis of objection to determination of the motion to dismiss when the court below entered its order. To the contrary, in their "Memorandum in Opposition to Defendants' Motion to Dismiss the Complaint", filed, by leave of court, *subsequent* to the hearing (R. 213, R. Vol. 2, pp. 12-13), appellants expressly submitted the cause on the files before the court at the hearing. In their Memorandum, appellants *did* object to any ruling on appellees' defense that the Minnesota court was the only forum in which to commence an action to dissolve an injunction issued by that court, and based their objection in this respect on the ground that that defense had not been stated in the motion, as required by Rule 7(b), *Federal Rules of Civil Procedure* (R. 213). But with respect to the defense that Tecnique of New Jersey was an indispensable party and was not duly served, no objection was made that ruling should be reserved pending completion of further discovery. To the contrary, all appellants' Memorandum stated on this point was that, "Although defendants strenuously oppose any discovery by the plaintiffs, *there are sufficient facts in the papers filed in this proceeding* and in the public records to support this position" that "Shulton purchased the formulas and rights, if any, under the injunction and that Tecnique, New Jersey, was and is a shell, organized, controlled and dominated by Shulton, Inc." (R. 214, ital. supplied.)[5] Appellant's Memorandum was required to comply with Rule 3, *Rules of Civil Procedure,* United States District Court for the Southern District of California, which provides both that any party opposing a motion must file a "complete, written statement of all reasons in opposition thereto and an answering memorandum of points and authorities", and further provides that one who wishes to "move for a continuance, shall immediately notify (1) opposing counsel (2) the Clerk, and (3) the secretary of the Judge before whom the matter is pending", a notice which, as the silence of the record confirms, was never given.

cf. *Janousek v. French,* 287 F.2d 616, 619 (C.A. 8, 1961).

In the light of appellants' Memorandum, the trial court could only conclude that appellants had submitted the issue on the file then before the court. The court below thus properly decided the motion to dismiss on the evidence before it.

It is equally clear that the court below properly exercised its discretion in overruling the motion for re-hearing to permit further discovery. A sufficient reason is that, prior to the ruling adverse to appellants, the matter had been submitted with appellants' consent on the record then before the court. The facts which appellants purportedly sought to develop by further discovery, moreover, plainly "would have done no good".

City of Coral Gables v. Hayes, loc. cit., supra;
Fouts v. Fawcett Publications, supra.

The irrelevant issue, whether the capital stock of Tecnique of Minnesota had been transferred to Shulton, Inc., rather than Tecnique of New Jersey, was raised again (R. 258). It was further claimed that, in view of the admissions in the answers to interrogatories that Tecnique of New Jersey occupied the premises of Shulton, that it had no separate manu-

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[5]The statement as to appellees' opposition, incidentally, was in error; appellees never opposed any discovery by plaintiffs on the jurisdictional issue, as plainly appears from the transcript of proceedings in the hearing of November 20, 1962 (R. Vol. 2). Appellees' counsel did object to the taking of his deposition in Los Angeles, California, and moved the court either to quash the notice or to direct that his deposition be taken at his residence, Minneapolis, Minnesota, or on written interrogatories (R. Vol. 2, pp. 5-6). As stated, appellants subsequently withdrew the notice of taking his deposition.

facturing or warehouse facilities, and that the majority of its directors and officers were also officers and directors of Shulton, Inc., further discovery was needed and would show that "Tecnique is financed solely by Shulton" (R. 259, 260), a showing which, if made, would have been immaterial in view of the express assumptions in the controlling case of

> *Cannon Mfg. Co. v. Cudahy Packing Co.,* 267 U.S. at 335, 69 L.Ed. at 641,

that the parent "dominates" the subsidiary "immediately and completely" and "exerts its control both commercially and financially" through the "same individuals" as it "does over * * * departments of its business not separately incorporated", and that the subsidiary engaged only in selling products purchased from the parent company and shipped by the latter directly to subsidiary's customers.[6]

Only one claim was made in the motion for re-hearing that appellants had evidence to show that Shulton, Inc. acted as agent of Tecnique of New Jersey in California transactions so that the latter corporation did in fact do business in Cali-

[6]There was also no need for further discovery to determine whether, as appellants claim (R. 259), the documents in evidence showed Shulton, Inc. had itself engaged in selling to the "professional trade", contrary to appellees' verified answers to appellants' interrogatory 13 (R. 162) or whether, as averred by Mr. Bangs, the documents cited by appellants were in fact advertising brochures of Tecnique of New Jersey in which that corporation was loosely described as a "division" of Shulton, Inc., the subsidiary being correctly described as a "subsidiary of Shulton, Inc.", however, in all legal instruments, including invoices (R. 265, 266, 268). If Shulton sold to the professional trade for its own account in California, its business there would not constitute doing business by Tecnique of New Jersey in that state. Without dispute, moreover, as shown by the documents relied on by appellants themselves, Technique of New Jersey independently solicited the "professional trade" (R. 246). Had appellants seriously claimed the contrary, they could, without further discovery, have readily called appellant Albert Lapin to testify at the hearing of November 20, 1962 under Rule 43(e), *Federal Rules of Civil Procedure;* having been engaged since at least 1951 (R. 6) in selling hair dye to the "beauty supply houses" (R. 70) and having an intimate knowledge, as appellants' interrogatories disclose, with the distinction between the "professional" and "retail" trade and the products of each of his competitors (R. 105-110, 114-120), he was fully qualified to give any evidence appellants needed on this point at the hearing.

fornia. This claim, however, was based solely on the affidavit of appellants' own counsel that he "is informed and believes" that Breiseth and one Williams, employees of Shulton, Inc., solicited the professional beauty houses for the sale of "Tecnique"; that orders for "Tecnique" could be placed by calling Shulton's office in Los Angeles, and that payments for "Tecnique" were made to Shulton (unnumbered page following 240-241). Since the trade name "Tecnique" is used by Tecnique of New Jersey (R. 246) and was also licensed to Shulton, Inc. (R. 187), even an affidavit based on personal knowledge would have been of little probative value, whether viewed alone or in the light of Breiseth's affidavit that the matters involved were "retail" items sold by Shulton for its own account (R. 270, 271). Certainly the court below was entitled to ignore an affidavit based merely on information and belief and not accompanied by any explanation for the failure of appellants to adduce such evidence at the hearing on November 20, 1962 or to subpoena Breiseth for examination generally at the hearing as to the services, if any, which he rendered for Tecnique of New Jersey in California.[7]

The cases cited by appellants furnish no support for their position. The decision in

> *Monteiro v. San Nicolas S.A.*, 254 F.2d 514 (C.A. 2 1958),

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[7]The statements of appellants' counsel on information and belief made in this connection were incorporated in an affidavit of December 12, 1962 (R. 236-41), as part of "the evidence presented at the hearing on the motion to dismiss which plaintiffs desire to have incorporated into the record" as prayed for in the motion for re-hearing (R. 237). In fact, no such statements had ever been made in oral argument at the hearing of November 20, 1962 by appellants' counsel (R. Vol. 2, pp. 40-9, 67-72). Had they been made at that time, there would have been even less excuse for failing to subpoena Mr. Breiseth for examination at the hearing with respect to these statements of appellants' counsel. It should also be added that the excuse given in the same affidavit, that, because counsel was engaged in an extensive argument in another case when served with motion to dismiss he "had no opportunity to prepare affidavits of the type required to oppose the motion before the hearing on the motion" (R. 236-7), would hardly excuse the failure to subpoena Mr. Breiseth for examination at the hearing.

the only one cited which reversed a decision of the trial court, is not even remotely in point. No issue was raised as to whether a continuance should have been granted pending completion of discovery. It was admitted that the resident corporation which had been served had in prior years acted as respondent's general agent in New York and was "appointed by respondent to handle business in New York when any arises" (254 F.2d at 514, 517), and there was no evidence that it had not continued to serve as general agent of respondent, other than the "conclusory assertion" to that effect in its affidavit, which was "contradicted in the affidavit of libelant's attorney" (254 F.2d at 516). The only conclusion the Court of Appeals could reach was that "it cannot be determined from the record in the case at bar whether" the resident corporation served "did in fact continue the business activities" of respondent in New York and that a hearing was necessary to determine the validity of the service.

The remaining cases cited are all trial court decisions, involving an exercise of discretionary authority, and are each plainly distinguishable on their facts. In

> *River Plate Corp. v. Forestal Timber Ry. Co., Ltd.,* 185 F.Supp. 832 (S.D. N.Y. 1960),

prior to the motion to dismiss, the plaintiffs had moved for the issuance of letters rogatory to take depositions in England and Argentina and had moved to take depositions in the United States to elicit facts on the jurisdictional issues. From the supporting affidavits of the moving defendants themselves, it appeared that there was substantial evidence that, in prior years, the moving defendants had been compelled to settle out of court certain anti-trust charges and had admittedly "arranged their affairs so that they will not be 'found' in the United States for purposes of suit", and to this end had "carefully re-worked their agreement with their distributors" so as to show on their "face" that the distributors were "independent contractors who have no agency relationship" with the moving defendants. The plaintiffs, however, alleged that the "concealment of such relationship is part of the conspiracy to restrain commerce and is the gravamen of the complaint" (185 F.Supp. at 835). On this basis, the court concluded that the facts were similar to those in the *Monteiro* case because "there may have been prior activities sufficient to constitute presence in the jurisdiction" so that "plaintiffs should be afforded an opportunity to explore the question whether such activities have in fact continued".

The case of

> *General Ind. Co. v. Birmingham Sound Reproducers, Ltd.,* 26 F.R.D. 559 (E.D. N.Y. 1961),

is not even remotely in point. In that case, plaintiff had filed interrogatories bearing on the jurisdictional facts and had moved for an order to compel defendants to answer the interrogatories and had further moved to stay the hearing on defendants' motion to quash until plaintiff had answered the interrogatories. Defendants conceded that the court had power to order answers to the "jurisdictional interrogatories" and did not question the scope of the interrogatories (26 F.R.D. at 560-1). Defendants' sole claim was that the interrogatories should have been propounded under Rule 31, instead of Rule 33, so that defendants could have had an opportunity to propound cross-interrogatories. The District Court merely overruled this narrow objection as without substance.

Finally, in

> *Ziegler Chemical & Mineral Co. v. Standard Oil Co. of Calif., supra,*

the court, while it did continue determination of a motion to dismiss, pending completion of pre-trial discovery, recognized that the matter was a procedural one within the discretion of the trial court.

D. NONE OF THE FACTS RELATING TO THE JURISDICTIONAL ISSUES COINCIDED WITH THOSE ON THE MERITS SO AS TO REQUIRE A PLENARY HEARING.

As the trial court properly concluded (R. 275-6), there was no coincidence between the jurisdictional issues and those on the merits as the latter were defined by appellants' counsel at the hearing. The basis of the claim for relief on the merits, as then stated by appellants' counsel, was that "the product has changed in 10 years"; that the "market has changed in ten years"; and that "the competitive strength of the parties is the key to this thing", since he "could not see" that "there was any danger that Lapinal with its $110,-000.00 is a serious threat to Shulton with its $25,000,000.00" (R. Vol. 2, pp. 68-70). While he claimed to make no point as to the secrecy of the processes for the manufacture of Tecnique at the time the original decree was entered, he could see no reason for continuing the injunction if they were not secret (R. Vol. 2, p. 54), a point discussed more fully in Point II below.

The claim that the issues on jurisdiction and those on the merits overlap, as now made in appellants' brief (pp. 34-6), is equally without merit. Most of the issues listed on appellants' brief (pp. 34-5) as decided by the court below in resolving the jurisdictional issue, are precisely of the character repeatedly determined by the trial courts on affidavits in passing on motions to dismiss as appears from the cases cited in Point I, B, 2, *supra*. This is certainly true of the related questions whether "Tecnique was a separate entity and not the alter ego of Shulton, Inc."; whether Tecnique of New Jersey "was a corporate entity which had rights independent of the defendant Shulton"; whether "Shulton was not the agent of Tecnique" through which "Tecnique does business within the district"; and whether "Technique was not doing business directly within the district".

Appellants, however, wholly misconceive the nature of the remaining questions decided by the court below, in asserting that that court had decided whether Tecnique of New Jersey had "acquired certain rights to a formula for hair dye and to an injunction by a series of assignments and bills of sale executed four months after Shulton acquired the stock of Tecnique (Minnesota)", and had also decided whether "the right to the formula for hair dye and the injunction were assignable and * * * the instruments of conveyance were bona fide instruments supported by valid consideration rather than formal acts by two servants of the same master without genuine substance or significance" (App. Br., pp. 34-5). All that the court below decided on this issue, as it made clear in its opinion overruling the motion for re-hearing, was that Tecnique of New Jersey, as the "apparent" owner of the decree of injunction, had such a claim thereto that its claimed interests could not be adversely determined in a proceeding to which it was not a party. As to this, the court below said:

> "For purposes of clarification it should be understood that this court in its Order of December 4, 1962 made no finding that Tecnique of New Jersey is, in legal effect, the owner of the decree of injunction which forms the subject of this action. The purport of that Order is that, because of its *apparent* ownership, Tecnique, of New Jersey, is an indispensable party to any action which seeks to extinguish such injunction and consequently the rights therein. Plaintiff as a matter of fact does not seem to dispute that, on paper at least, Tecnique of New Jersey owns the injunction. What plaintiff does emphatically contend is that Shulton is the real party in interest, that Tecnique is only a sham and should be disregarded." (R. 276).

The decisions previously cited in Point I, B, 1, *supra*, which uniformly hold that a claimant to a disputed fund or property is an indispensable party to an action affecting the title to such fund or property, fully support the decision of the court below.

The correctness of this conclusion is strongly confirmed by appellants' mere statement of the alleged coincidence of the jurisdictional issues and those on the merits. Appellants state (Br., pp. 35-6):

> "To a significant degree these issues coincide with the issues going to the merits. The substantive foundation of appellants' claim for relief against the prospective application of the injunction is that there have been significant changes in conditions and circumstances between 1951 and 1962 which have resulted in rendering the injunction of no benefit to appellees and an instrument of oppression to appellants. At the trial, the Court will necessarily have to determine who is, in contemplation of law, the current beneficiary of the right granted by the injunction. This will involve proof of the origin of such right, the current existence of the rights and the devolvement of such rights by conveyance or by operation of law or otherwise. It will require the court to determine, as a matter of substantive law, whether Tecnique (New Jersey), Shulton, LaMaur or some other party is the legal and beneficial owner of the formula and of the rights under the injunction before it can decide what relief appellants are entitled to and against whom."

It may be noted in passing that the right to the Minnesota decree of injunction was assignable by LaMaur.

Gale v. Tuolumne County Water Co., 169 Cal. 46, 145 P. 532 (1914);

Anno., 61 A.L.R.2d 1083, 1099.

But, if the contrary conclusion were true, then plainly LaMaur would be an indispensable party to this action, because it would then still be apparent owner of the decree. But, as shown in Point I, B, *supra,* it is unnecessary and, indeed, improper to make any final adjudication on the merits of this issue in ruling on a motion to dismiss "without prejudice".

It is enough to say that Tecnique of New Jersey, as the "apparent" owner of record, has such a claim to all rights in the Minnesota decree as to preclude the maintenance of any action for dissolution of that decree in an action to which it is not a party. And since, as appellants now claim, a determination on the merits would require an adjudication of the rights of LaMaur, as well, then the action should be dismissed on the independent ground that LaMaur was not even named as a party. The fact that this was not made a specific basis of the motion is immaterial. For, as this Court has held, "the absence of indispensable parties can be raised at any time, however, even by the appellate court on its own motion."

McShan v. Sherrill, 283 F.2d 462, 464 (C.A. 9, 1960);

Cf. *State of Washington v. United States,* 87 F.2d 421 (C.A. 9, 1936).

II.

An action to dissolve the Minnesota decree is maintainable, if at all, only in the Minnesota court which entered that decree.

The motion to dismiss, though it did not invoke on its face the defense that no action to dissolve a decree of injunction is maintainable in a court other than the one which issued it, did state that the motion was based in part on the "Defendants' Statement of Reasons in Support of this Motion" (180-1) and the Statement expressly set forth this defense as one of the grounds in support of the motion (R. 201, 204). Even if this were not a sufficient written statement of this defense as a ground of the motion under Rule 7(b), *Federal Rules of Civil Procedure,* appellants waived any right to object to a ruling on this defense by consenting to argue it at the hearing below on the sole condition, granted by the court, that they be permitted to file a brief subsequent to the hearing (R. Vol. 2, pp. 12-13).

Mutual Life Ins. Co. of New York v. Egelin, 30 F.Supp. 738 (N.D. Cal. 1939).

As the defect of equitable jurisdiction appears on the face of the complaint, moreover, it could be noticed by the court on its own motion.

Twist v. Prairie Oil & Gas Co., 274 U.S. 684, 71 L.Ed. 1297 (1927);

Viles v. Prudential Ins. Co. of America, 124 F.2d 78 (C.A. 10, 1941), cert. den. 315 U.S. 816, 86 L.Ed. 1214 (1942).

The court below did in fact sustain this defense (R. 225, 226-7, 273, 277).

What little authority there is supports appellees' position that an action to dissolve a decree of injunction because of changed conditions may be maintained only in the court which entered the original decree.

Torquay Corp. v. Radio Corp. of America, 2 F.Supp. 841, 844 (S.D. N.Y., 1932).

This view, we submit, is plainly correct on principle.

We recognize, of course, that the right to maintain an independent action in another court to set aside a decree because of fraud, or to enjoin the execution of a judgment because of payment subsequent to the entry thereof, has long been established.

Marshall v. Holmes, 141 U.S. 589, 35 L.Ed. 870 (1891);

Johnson v. St. Louis I. M. & S. R. Co., 141 U.S. 602, 35 L.Ed. 875 (1891).

In such cases, the facts alleged as ground for injunctive relief necessarily could not have been heard or considered by the court which entered the original judgment or decree.

Very different considerations apply, however, we submit, to an action to dissolve an injunction on the grounds of changed conditions. As the Supreme Court has observed:

> "The source of the power to modify is, of course, the fact that an injunction often requires continuing supervision by the *issuing* court and always a continuing willingness to apply its powers and processes on behalf of the party who obtained that equitable relief." (Ital. supplied.)
>
> *System Federation No. 91 v. Wright,* 364 U.S. 642, 647, 5 L.Ed.2d 349, 353 (1961).

It follows necessarily, we submit, that an application to "modify" and, *a fortiori,* to "dissolve" an injunction should be made to the "issuing court".

This would seem to be the conclusion required in any case of application for such relief. Certainly such should be the result here. In passing on appellants' application for dissolution of the Minnesota decree, it will be necessary in the first instance to determine the basis for that decree in order to determine whether there have been any "changed conditions" which would warrant a different result at this time. Appellants, while disavowing below any intention of relitigating the issues tried in the Minnesota action, or of raising any issue as to "secrecy" of the trade formulas and processes involved at the time the Minnesota decree was entered, have explicitly stated in answers to interrogatories of appellees that the "United States District Court, District of Minnesota, Fourth Division, has previously found that said formulas or processes were a secret * * * on the date of issuance of the injunction of 1951" (R. 172, 173-4). It is appellees' position, of course, that no such finding was made and that at most the Minnesota court found that the Lapins "claimed" that the formulas and processes were "secret" (R. 76). The important point, however, is that the question whether any such finding was made is peculiarly one for the determination of the Minnesota court. Since no transcript was prepared of the evidence taken at the hearing in the Minnesota court and the reporter's notes have not been preserved (R. 208-11), any ambiguity in the findings of the Minnesota court must be resolved by reference to the minutes of that court.

The Minnesota court, moreover, is obviously best qualified to determine whether, in any case, the injunction as originally entered on December 30, 1950, was based on any alleged "secrecy" or rather, as appellees claim, solely on the basis of the exclusive license granted to LaMaur to manufacture Tecnique in accordance with the formulas and processes disclosed by the Lapins or any improvement therein. That court can best determine, moreover, whether in the modification of the order and decree on July 5, 1951, pursuant to the stipulation of the parties, the basis for the modified decree of injunction was anything other than the agreement of the Lapins to sell absolutely their interest in the formulas and processes involved, subject only to the limited license to Albert Lapin to manufacture Lapinal so long as he owned a majority of the shares of stock or other securities of his corporate instrumentality, Lapinal, Inc., and remained the principal executive officer thereof.

It need only be added that in a proceeding in Minnesota to dissolve the injunction of 1951, valid service could be made on Tecnique of New Jersey as assignee of the rights of LaMaur, Inc.,

Butler v. Ungerleider, 187 F.2d 238 (C. A. 2, 1951),

and that Shulton, Inc., although not qualified to do business in Minnesota (R. 164), would not be a necessary party in any such proceeding.

9 Fletcher, *Cyclopedia of Corporations,* Sec. 4473, p. 307 (Perm. Ed.).

CONCLUSION

For the foregoing reasons, it is respectfully submitted that the order of the court below granting appellees' motion to dismiss the complaint should be affirmed.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

* * *

State of Minnesota)
) ss.
County of Hennepin)

I, Melvin H. Siegel, one of the attorneys for the above-named Appellees, Shulton, Inc. and Tecnique, Inc., do hereby certify that I have examined the provisions of Rules 18 and 19 of the above-entitled Court, and that in my opinion the tendered brief on behalf of Shulton, Inc. and Tecnique, Inc. conforms to all requirements.

Dated: September 16, 1963.

Melvin H. Siegel